

## Message Text

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E.O. 11652: N/A

TAGS: EINV, CS

SUBJECT: BONA FIDES OF PARTICIPANTS IN TURBOW'S

EL ROBLEDAL HOUSING PROJECT

REF: SAN JOSE 2322

SUMMARY. THIS MESSAGE IS TO PROVIDE THE DEPARTMENT WITH BACKGROUND INFORMATION TO EXPLAIN WHY THE EMBASSY BELIEVES THAT IT WOULD BE DESIRABLE TO SEEK AS MUCH INFORMATION AS POSSIBLE ABOUT THE BONA FIDES OF THE PROPOSED PARTICIPANTS IN THE EL ROBLEDAL PROJECT RATHER THAN TO RELY ON OPIC STATEMENT THAT IT "HAS NOT UNCOVERED ANY ADVERSE INFORMATION." END SUMMARY.

THE FOLLOWING FACTORS CONCERNING THE EL ROBLEDAL PROJECT WOULD APPEAR TO INDICATE CAUTION:

1. FINANCIAL STRUCTURE - THE STRUCTURE OF THIS PROJECT IS SO COMPLICATED AND ITS FORM SO NEBULOUS AS TO SUGGEST SOME KIND OF FINANCIAL SHELL GAME. THE ALLEGED INVESTOR, TURBOW, DOES NOT APPEAR TO INVEST ANYTHING, AND THE REAL INVESTORS (THE U.S. SAVINGS AND LOAN INSTITUTIONS) DO NOT APPEAR TO OWN OR CONTROL ANYTHING, NOT EVEN THE MORTGAGES WHICH OPIC WOULD INSURE, AND WHICH REMAIN IN TURBOW'S NAME. THE EFFECT OF THE FINANCIAL STRUCTURE APPEARS TO BE TO DELEGATE TO TURBOW A POWER THAT BELONGS TO OPIC AND THE LIMITED OFFICIAL USE

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U.S. GOVERNMENT, NAMELY THE POWER TO OFFER POLITICAL

RISK INVESTMENT INSURANCE TO U.S. SAVINGS AND LOAN INSTITUTIONS WISHING TO PARTICIPATE IN MORTGAGE SCHEMES ABROAD.

2. FALSE OR MISLEADING STATEMENTS - TURBOW HAS STATED TO AN EMBASSY OFFICER THAT HIS INTEREST IN THE EL ROBLEDAL PROJECT AND IN OTHER SIMILAR PROJECTS HE PLANS TO PROMOTE TO BUILD MIDDLE CLASS HOUSING IN OTHER LATIN AMERICAN COUNTRIES IS "ELEMOSYNARY." IN FACT, TURBOW STANDS TO COLLECT AN UNRESTRICTED PERCENTAGE ON THE EL ROBLEDAL PROJECT AND ALL SUBSEQUENT SIMILAR PROJECTS HE PLANS TO PROMOTE HERE AND IN OTHER LATIN AMERICAN COUNTRIES WITHOUT INVESTING A PENNY OF HIS OWN MONEY. ACCORDING TO HIS APPLICATION, HE WOULD PROVIDE ONLY THE "BRIDGING FINANCING" USING FUNDS BORROWED FROM LOCAL BANKS, WHICH WOULD FINANCE THE PROJECTS DURING THE ESTIMATED 60; DAYS BETWEEN THE COMPLETION OF CONSTRUCTION AND THE WRITING OF ALL OF THE MORTGAGES. THE SPREAD BETWEEN THE INTEREST RATE PAID BY THE ULTIMATE BUYER "TENTATIVELY FIXED AT 12 1/2 PERCENT" AND THE 10 PERCENT RETURN GUARANTEED TO U.S. S AND L INSTITUTIONS, WOULD PAY OPIC'S .9 PERCENT, AND THE LOCAL BANK'S .5 PERCENT, LEAVING 1.1 PERCENT FOR ADMINISTRATIVE EXPENSES AND TURBOW'S PROFIT. ASSUMING THAT .6 PERCENT WOULD COVER THE ADMINISTRATIVE COSTS, TURBOW MIGHT EARN A PROFIT OF 1/2 PERCENT, WHICH WOULD AMOUNT TO \$430,000 OVER THE 20 YEAR DURATION OF THE MORTGAGE. HE WOULD THUS CAPTURE AN AMOUNT EQUAL TO 1/10 OF THE TOTAL AMOUNT OF THE MORTGAGES GUARANTEED BY OPIC (\$4,305,000) FOR DOING NOTHING OTHER THAN PROVIDING 2 MONTHS FINANCING WITH BORROWED COSTA RICAN FUNDS. MOREOVER THE INTEREST COST TO BE PAID BY THE HOME BUYERS IS ONLY "TENTATIVELY FIXED" AT 12 1/2 PERCENT. TURBOW WOULD APPEAR TO BE FREE UNDER THE TERMS OF HIS APPLICATION TO OPIC TO INCREASE THE RATE TO WHATEVER THE TRAFFIC WOULD BEAR, HIS ONLY OBLIGATIONS BEING TO PAY 10 PERCENT TO THE U.S. S AND L'S AND TO PAY THE SMALL GUARANTEE FEES TO OPIC AND THE LOCAL BANK. IF HE PUSHED THE MORTGAGE RATE UP TO 13.75 PERCENT, LIMITED OFFICIAL USE

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THE AMOUNT NOW CHARGED BY MUTUAL SAVINGS BANKS HERE (SAN JOSE 1926) HE COULD INCREASE HIS PROFIT BY 1.25 PERCENT WHICH WOULD AMOUNT TO AN INCREASE OF \$1,076,250 OR A TOTAL PROFIT OVER THE LIFE OF THE MORTGAGES OF \$1,506,750.

3. IF TURBOW SHOULD ACHIEVE HIS BROADER OBJECTIVE OF MAKING HIMSELF THE MIDDLEMAN FOR \$500 MILLION IN

OPIC GUARANTEED HOUSING IN LATIN AMERICA, HE WOULD REAP (EVEN AT THE LOWER 1/2 PERCENT PROFIT LEVEL) \$2.5 MILLION PER YEAR, OR \$50 MILLION OVER THE 20-YEAR LIFE OF THE MORTGAGES -- AND ALL WITHOUT INVESTING A SINGLE PENNY OF HIS OWN MONEY.

4. THE PROFIT POTENTIAL IN THE TURBOW HOUSING SCHEME CERTAINLY DOES NOT INDICATE A CHARITABLE UNDERTAKING. IN FACT IT LOOKS MORE LIKE A PROMOTER'S SCHEME TO DRAIN PROFIT FROM A PROJECT OUT OF ALL PROPORTION TO HIS CONTRIBUTION. IT WOULD APPEAR TO PLACE AN UNJUSTIFIABLE ADDITIONAL BURDEN ON THE COSTA RICAN HOME BUYER THAT COULD EASILY BE AVOIDED IF OPIC WORKED DIRECTLY WITH THE ACTUAL INVESTORS -- THE U.S. SAVINGS AND LOAN INSTITUTIONS -- RATHER THAN THROUGH A MIDDLEMAN.

5. FALSE OR MISLEADING STATEMENTS HAVE ALSO BEEN MADE TO COSTA RICAN MINISTER OF PLANNING ARIAS EITHER BY TURBOW'S AGENTS OR HIS LOCAL PARTNERS. ARIAS HAS BEEN TOLD THAT THE PROJECT WILL BUILD HOUSES TO BE SOLD AT \$15,000 TO \$30,000 IN AN ATTEMPT, APPARENTLY SUCCESSFUL, TO GAIN HIS SUPPORT, WHEREAS THE FACT IS THAT THE PROJECT CONTEMPLATES, ACCORDING TO THE OPIC APPLICATION, THE FINANCING OF HOUSES THAT WILL COST FROM \$27,500 TO \$30,000. ARIAS WAS ALSO TOLD THAT THE PROJECT WOULD BRING \$20 MILLION TO COSTA RICA WHEN IN FACT THE APPLICATION WILL COVER ONLY \$4,305,000 IN MORTGAGE FINANCING.

6. THE PUBLIC IS APPARENTLY ALSO BEING MISLED. ACCORDING TO ARIAS, THE HOUSES IN THE EL ROBLEDAL PROJECT ARE BEING PRESOLD AND DEPOSITS HAVE BEEN LIMITED OFFICIAL USE

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TAKEN ON 65 PERCENT OF THE UNITS, AT A TIME WHEN TURBOW AND HIS LOCAL PARTNERS KNOW THAT THE PROJECT HAS NOT BEEN APPROVED BY OPIC. LOCAL BUILDERS ARE ALSO REPORTEDLY BEING INFORMED BY TURBOW THAT HE CAN PROVIDE OPIC GUARANTEED FINANCING FOR THEIR PROJECTS.

7. CONCEALED OWNERSHIP OF COMPANIES - THE FACT THAT COSTA RICAN LAW PERMITS COMPANIES TO BE INCORPORATED USING BEARER SHARES FACILITATES CONCEALMENT OF THE TRUE OWNERSHIP, MAKING IT VERY DIFFICULT TO ASCERTAIN IN ANY PARTICULAR CASE WHETHER UNSAVORY ELEMENTS MIGHT BE INVOLVED. THIS OPENS UP THE POSSIBILITY OF VESCO OR ORGANIZED CRIME INVOLVEMENT IN ANY PROJECT WHERE ONE OF THE PARTICIPANT COMPANIES IS ORGANIZED WITH BEARER SHARES. WE HAVE NO INDICATION OF SUCH INVOLVEMENT

IN THIS CASE, AND CAN VOUCH FOR TWO OF THE LOCAL PARTIES,  
THE ESQUIVEL BROTHERS AND ATTORNEY PIZA, BUT  
EL ROBLEDAL S.A. IS ORGANIZED USING BEARER SHARES  
(189 SHARES OF 1,000 COLONES EACH) AND LITTLE SEEMS  
TO BE KNOWN ABOUT AICAJACMAC S.A. OF PANAMA AND THE  
PUERTO RICO FINANCIAL CORPORATION.

8. AS MANY COMPANIES IN COSTA RICA ARE ORGANIZED  
USING BEARER SHARES, CONCERN COULD ARISE WITH RESPECT  
TO OTHER PROJECTS, AND INDEED IT IS A FACTOR THAT  
WARRANTS CAREFUL CONSIDERATION IN ALL SUCH CASES.  
SHORT OF REFUSING OPIC INSURANCE IN ALL SUCH CASES,  
THE EMBASSY HAS NOT THOUGHT OF ANY GENERAL WAY TO  
DEAL WITH THE BEARER SHARE PROBLEM, BUT IN PARTICULAR  
CASES WHEN THERE ARE OTHER FACTORS WHICH RAISE DOUBTS  
ABOUT BONA FIDES, GREATER EFFORTS SHOULD BE MADE TO  
ASCERTAIN WHO ARE THE PARTICIPANTS AND WHAT ARE THEIR  
REPUTATIONS. IN A CASE WHERE THERE ARE REASONS FOR  
SUSPICION, IT MIGHT BE PRUDENT FOR THE USG TO REQUIRE THE  
APPLICANT FOR OPIC INSURANCE TO PROVIDE THE NAMES OF  
ALL PERSONS HAVING A BENEFICIAL INTEREST IN THE PROJECT  
AND TO INCLUDE IN THE CONTRACT A PROVISION THAT THE  
INSURANCE WOULD BECOME NULL AND VOID IF IT LATER DEVELOPED  
THAT THE NAMES OF INTERESTED PARTIES HAVE BEEN CONCEALED.  
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